Memorandum

Subject: Telephone Interview With [redacted]

Date: May 3, 1996

60-2096-0002

To: Files

From: Tara Sweeney

b7D

This morning Jill Ptacek, Nina Hale, Cindy Alexander, and I spoke with [redacted]

Background

[redacted]

distribution: RWF, DNK, HALE, PTACEK, ALEXANDER - EAG, SWEENEY, JONES, BEN-DAVID, CASE, CHRON, ARCHIVE

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Exempt under b7D

[redacted] b7D

He says that Frito Lay institutes illogical financial constraints. Frito Lay's aggressive tactics include their policy of giving money to stores who stop selling their competition. He says this happens particularly with small stores. He also said that [redacted] can't match the financial offer. Frito Lay offers the stores money for extra space on the shelves. In the past they had approximately [redacted] percent of their business through chain stores. They have now decreased that to [redacted] to [redacted] percent. b4, 7D

The rest of their market deals with Mom and Pop stores and small convenient local stores. He says that all the stores from chains to convenient stores are being offered money to eliminate competition. It is suspected that Frito Lay will raise prices once they are able to eliminate competition. He has been told by chain store owner that they know when there is no alternative left, Frito Lay will increase their price and decrease their margin.

An additional problems is that the person who handles the space allocation in major chain stores works for Frito Lay. This person is essentially an administrative assistant to the buyer or category manager in the stores. He knows specifically that an Frito Lay assistant works in [redacted] b7D

The assistant carries out administrative chores but consequently can make sure that Frito Lay receives favorable treatment. Through the digest scanners in space allocation programs they are able to produce lists of what should be supplied by Frito Lay. Essentially, the category assistant can control what is happening in the market. Before store scanners and Frito Lay's invasion into the actual stores, the vendors generally did not know what was actually being sold. Once the technology improved and scanners were implemented, both the vendors and retailers had access to data. Consequently, they were able to make smarter decisions. The Apollo space program designs what is most efficient to be on their 50 feet of shelves for salty snacks. It is able to break down product A vs. product B. In the end, it is the buyer who makes the decision of what to purchase. The buyer makes these decisions based on information supplied by the Frito Lay employee. [redacted]

[redacted] He says they have approximately [redacted] He agreed to check his records to determine how much space they are allotted to each account.

b4, 7D

In some of their smaller stores they are able to out sell Frito Lay and have more space. For example a [redacted] only has [redacted] percent of the shelf space. On some of the local street stores, they have up to [redacted] percent where as Frito Lay may only have [redacted] percent. [redacted]

He states that Eagle had a strong mix of 50/50 between chain and convenient store. Eagle paid slotting fees as a defensive measure.

[redacted] has not exited any stores due to Frito Lay; however, they have reduced their shelf space in nearly all the stores. It has gone down from ten feet to [redacted] or [redacted] feet. [redacted] they went directly to the outlets and requested to put in their snack food racks. There was some minimal payment involved including the cost of the rack and guaranteed sales. Occasionally products were offered at an introductory rate. Eventually the industry evolved to paying the retailer for space. For example, when Eagle entered the market, it was an unknown and unrecognized product. Unless they had adequate shelving space they were not going to succeed. Anheuser Busch decided to purchase space to increase visibility. The result of this action was that it forced everyone else into purchasing shelf space.

He believes that Frito Lays tactic is difficult to justify unless the overall goal is to move all competitors out of the market in order to raise prices. He says that in the stores in which they paid [redacted] for slotting fees, they have not earned enough profit to break-even. He believes that these aggressive actions are taken by Frito Lay in order to control the industry.

b4, 7D

He states that approximately half of his [redacted] accounts request some sort of payment to stay were they are. He states that they haven't offered any other payment other than the slotting fees. For advertising, [redacted] typically reimburses the retailer for ads that are taken out. In addition, they bid for additional display space. He says that advertising and displays go hand and hand.

Frito Lay institutes exclusionary practices by giving cash bonuses to stores if they are able to become the exclusive supplier. He explained that there is know clear cut reason why a store would be willing to go with just one product, except for small stores that may not have sufficient room to keep on many suppliers. He states, however, that most stores would want to have at least two suppliers in order to keep prices down.

He says that the sale people who go into the stores frequently tell stories of exclusive programs. He has also heard cases where stores were asked to become exclusive dealer, but they rejected Frito Lay's offer due to a strong relationship with [redacted] Frito Lay likes have the only promotion. One store, for example, has an open bidding process for the lowest price. When a bidder gets the lowest price they are able to have the first position for a three to four months term contract. If company A bids at $.65 and company B bids at $.66, company A is able to offer promotions at the lowest price. Company B is locked in to having a significantly higher price, even though it only bid one cent lower. He says the stores set the retail prices buy providing preprinted stickers with the suggested retail price. They are unable to undercut the lowest position.

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He states that they try to track revenues and market shares to the best of their ability [redacted]

Finally, he states that to his knowledge Frito Lay has not tried to tie any sort of incentive payment to the sell of their Pepisco products.

So/So # 10690